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Sept. 23, 1987

LETTER 974

Sept. 11 DJIA 2608.74; PTI 2705; A-D Ratio -5.94  
Sept. 18 DJIA 2524.64; PTI 2680; A-D Ratio -6.71

**THE MARKET:** Let's start with the question that I've been asked many times recently. The question is, "Are we still in a bull market?" And at this juncture, neither I nor anyone else can provide an authoritative answer.

Of course, an awful lot of people are only too eager to offer their own "expert" answers. So from all points I read, "Of course this is still a bull market. All we've been seeing recently is the long-awaited correction, and if you'll only be patient, you'll get a great 'buy spot.'" (By the way, the preferred phrase today is "entry point" rather than the old-fashioned "buy spot.")

What do I think of that answer? As I said, it's not a useful answer -- it's just the consensus guess. *Nobody, repeat nobody, at this point can say with any authority that this is or is not still a bull market.* We are simply going to have to await the verdict of the market.

Let me introduce a thought which has occurred to me. If (in a month or so from now) it turns out that we are in a bear market I would be able to look back and say the following: "You know, August-September 1987 presented the perfect picture of a market top, and I honestly don't see how anyone could have missed it."

"After all, yields on the major stock averages were at historic lows. Price/earnings ratios were high. Book values were absurdly high. Volume on the NYSE was huge. In the face of all that nobody even mentioned the possibility of a primary bear market being in force (although a number of analysts did concede the possibility of a 'correction'). On top of that, the current gurus were saying that 'stocks are ultimately going a lot higher because our market is cheap compared with the Japanese market.' Others were repeating the old hack to the effect that 'the US and the world are swimming in liquidity, and Dow 3000 to 3500 is simply a matter of time.'"

"Wait, there's more -- looking back we note that the Utility Average topped out on January 22, the A-D ratio topped out on March 25, the Transportation Average hit its high on August 11, and following the Transport high the Dow advanced to an unconfirmed new high of 2722.42 on August 25. All in all, it was the ideal picture of a major market top. And yet the great majority of investors and professionals remained bullish and optimistic throughout the whole sequence."

Anyway, that's what I might write if August-September (in retrospect) proves to be the peak for the great bull market.

In the last Letter I noted that the classic and most trustworthy measure of stock market values (i.e., overvaluation or undervaluation) is the dividend yield on the D-J Industrial Average or the S&P 500.

To illustrate, let me review some figures covering yields on the S&P 500, figures which appeared at final bull market tops (these yield statistics include every bull market since 1929).

| DATE           | S&P 500 YIELD |
|----------------|---------------|
| September 1929 | 2.92%         |
| March 1937     | 3.47%         |
| May 1946       | 3.53%         |
| February 1966  | 3.06%         |
| December 1968  | 2.93%         |

January 1973 2.69%

Average 3.06%

August 21, 1987 2.68%

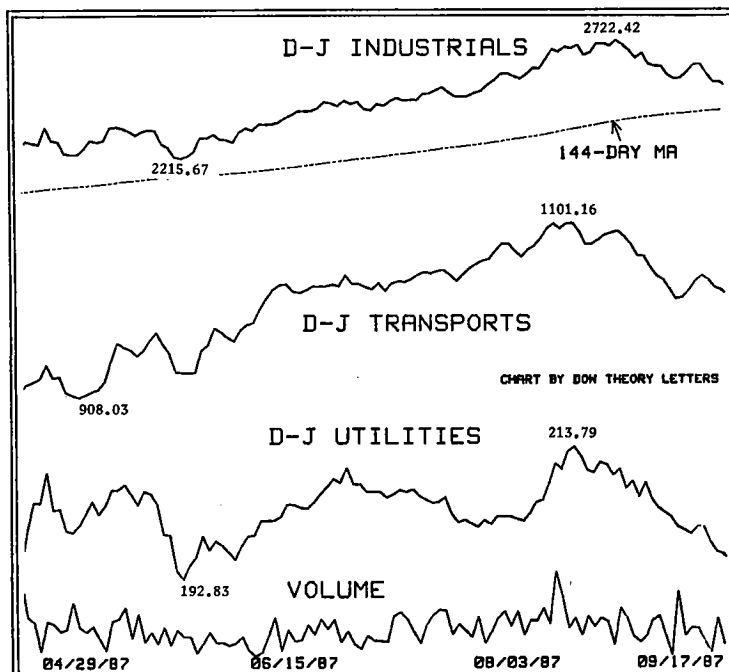
Now the comparisons above don't provide absolute proof of anything, but they are definitely cause for concern. And the truth is that they have me wondering. Let me put it this way -- I wouldn't bet the farm on this NOT being a bear market.

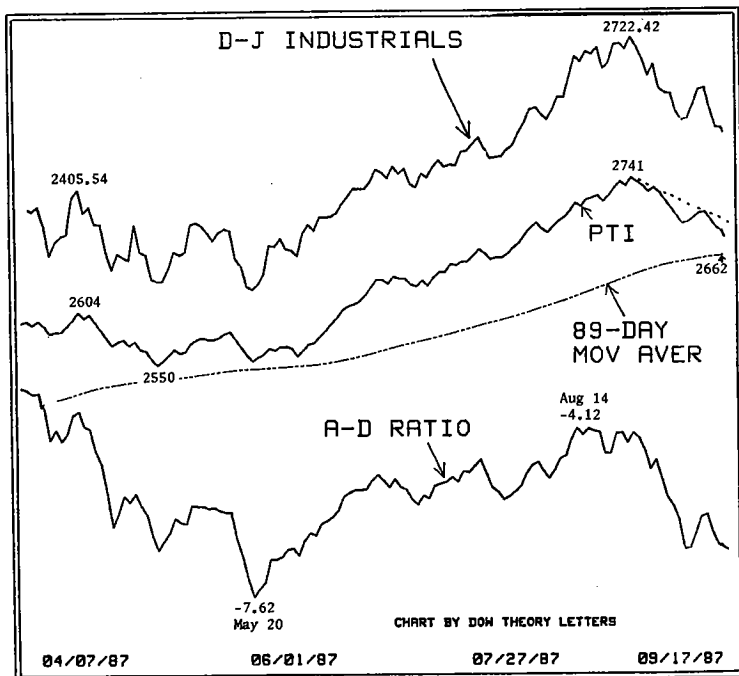
Next, what would have to occur to set off a true Dow Theory primary bear market signal? The following is what we are watching for.

(1) The two Averages (i.e., the D-J Industrials and Transports) would first have to undergo a full secondary correction. This would entail a substantial drop in both Averages lasting a few weeks or longer.

(2) Next, there would have to be a rally (of a few weeks or more) correcting the initial drop. If, in the course of that rally, BOTH Averages advanced to new highs (in the current case Industrials would have to rally above 2722.42 and Transports above 1101.16), we would then have a reconfirmation of the primary bull trend. BUT if, in the course of the rally, one or both Averages failed to go to new highs, and the Averages then turned down -- the situation would become critical.

(3) Why critical? Because if, on the second decline, BOTH Averages broke below their secondary lows, a primary bear market would be signaled.





In other words, for an authoritative check as to the direction of the primary trend, we must now wait to see whether (1) BOTH Averages can rally back above their August highs of 2722.42 and 1101.16 respectively or (2) BOTH Averages (following a substantial rally -- which, by the way, has not yet occurred) turn down and break whatever lows are finally recorded.

**Question:** On September 16 the Dow broke below its September 8 low of 2545.12. The Transportation Average has, so far, not confirmed in that it did not break below its corresponding low of 1012.12. But if Transports do confirm by violating the 1012.12 level, would this be considered a bear market signal?

**Answer:** If the Transportation Average confirms by breaking the 1012.12 level, I would simply call it an extension of the secondary correction rather than a primary bear market signal. I would make this classification on the basis of the size of the price structure. The elements of duration and extent are extremely important in determining whether a primary reversal has occurred.

For a primary bear market to be signaled you must have a full secondary decline, a full upside correction of the initial decline, and then another decline breaking the lows in BOTH Averages. This action cannot be completed in a week's or two week's time. The initial decline should be substantial and occupy a few weeks or longer. The same can be said for the upside correction of the initial decline.

The price action since the August 25 high is not great enough (in duration or extent) to allow for a bear market signal. That does NOT, however, mean that a bear market has not started. It simply means that we can not, at this point, state authoritatively (on the basis of Dow Theory) that a bear market has begun.

**Question:** What happens if both Averages just keep dropping, and no bear market formation occurs? In other words, what are we to think if the Averages just do an extended swan dive and no orthodox Dow Theory bear signal is ever given?

**Answer:** In the very rare case of a continued decline without any upside correction -- at the point at which BOTH Averages break their last important lows I would conclude that the primary trend of the market had turned bearish. The critical lows in the current case would be the 2215.87 Industrial low of last May 21 and the 908.03 Transportation low of April 28.

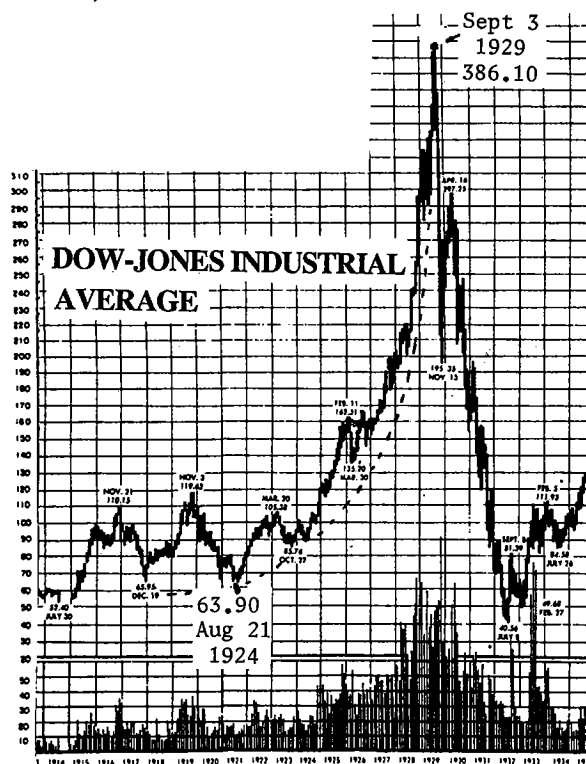
**Question:** How important is it that the Dow (see Letter 971) was in the throes of an exponential rising curve (i.e., a parabolic curve) prior to its downturn from the 2722.42 peak?

**Answer:** I believe the parabolic pattern is very important. The fact is that the Dow during June, July, and August was in the "vertical climb" stage of a parabolic curve, and at the August 25 high the Dow was yielding an incredibly thin 2.52%. Thus, the downturn from the August 25 high certainly could have been the first leg of a primary bear market. Or, again, the Dow could conceivably explode upward again and simply extend the vertical stage of the current parabolic rise.

I must say, however, that I am skeptical about the chances of the D-J Utility Average, the D-J Transportation Average or the advance-decline ratio advancing to new highs. If there are to be further fireworks, I would think they will again be confined to the Dow and to the Dow-type stocks.

**Question:** You've put a good deal of emphasis on the Dow and its parabolic rise. Are there precedents for the current parabolic rise? In other words, in the past have there been parabolic rises in other items or averages?

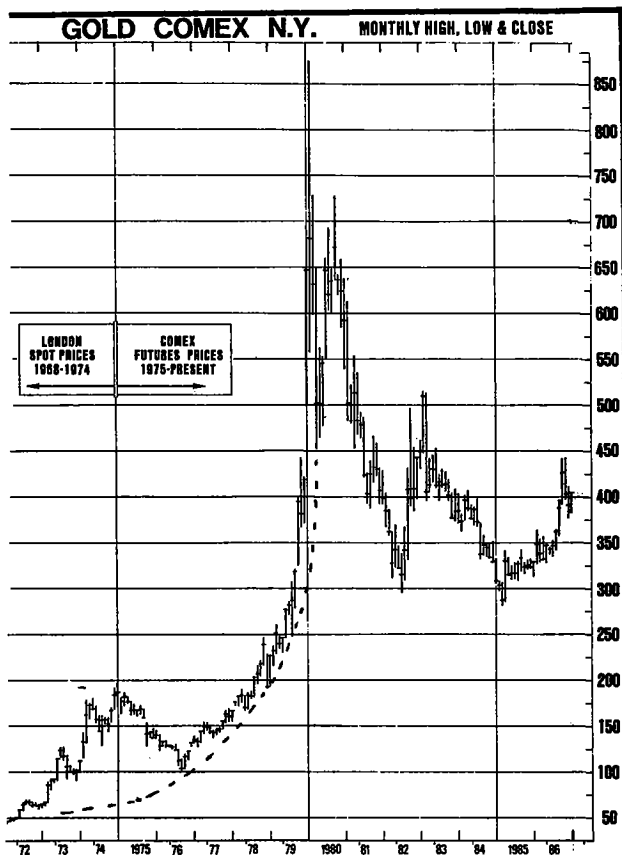
**Answer:** Yes. Although exponential or parabolic rises are fairly rare, they do occur (they are much more common in individual stocks than they are in any of the averages). I will illustrate two famous parabolic rises with these two monthly charts (charts on pages 2 and 3).



The first is undoubtedly the most famous of all parabolic rises. It's the amazing bull market advance of 1921 to 1929. The rise did not actually take on parabolic characteristics until 1924. But from 1924 to the final top in 1929, the Dow assumed the extraordinary pattern shown on this chart. Following the spearpoint peak of September 1929, the Dow plunged and, of course, the rest is familiar history.

A second and much more recent example of a parabolic rise occurred in gold during the advance of 1976 to 1980. Here again the chart tells the story. We see gold rocketing up, literally vertically, during late-1979 and into 1980, hitting a final high of 850 (spot price) in January. From there gold experienced a crushing bear market decline, a decline which recorded a final bear market low of 284 five years later in February 1985.

**Question:** Why were these parabolic rises followed by such severe bear markets?



**Answer:** It has to do with action and reaction. During the final vertical stages of a parabolic rise the market (any market) is in the grip of mindless greed and optimism. As we have seen this year with stocks, many issues advanced as much in a single day as they will pay in dividends during the next five years or more. The Dow during 1987 rose as much as its entire price (i.e., 577) during the first year of the bull market back in 1974. Gold in a few trading sessions during late-1979 rose more than its total price (35) of the early 1970s. These explosive and (in retrospect) absurd daily price increases are characteristic of the vertical stage of a parabolic rise.

And, of course, these price explosions go a long way toward explaining why the price structure collapses when a parabolic rise ends. It's as if the markets are atoning for their madnesses. Furthermore, a parabolic rise represents the essence of a market that is moving toward the *exhaustion point*. When a parabola finally reaches its peak, it has also reached the ultimate state of exhaustion. There is simply no more buying power left. The bulls are totally spent. From that point on it's as if the market has no floor and it collapses under its own weight.

**Question:** What do you think of the utilities as a safe harbor in case of a bear market?

**Answer:** I don't know where the concept of utilities being safe during a primary bear market comes from. The record speaks just the opposite. For instance, from its 1965 bull market high of 163.32 the D-J Utility Average dropped to 95.86 in 1970 -- a loss of 41%. More recently, from its 1971 high of 128.39 the D-J Utility Average dropped to 57.93 in 1974 -- a loss of 54.8%. I'd hardly classify either of those performances as defensive.

**INVESTMENT POSITION:** The question mark rules the box. I can't prove that it's a bull market or a bear market. Nor can anyone else on the face of the planet -- yet.

This section was never easy to write, and it's particularly difficult now. I write for thousands of subscribers, some rich, some on limited pensions, some owners

of mom 'n' pop restaurants, and some CEOs of America's largest corporations. So each subscriber has a different problem, and each is going to get something different from these reports.

Personally, I am extremely value oriented, and the absurdly low returns on common stocks over the last few months have made me so uncomfortable that I have bid adieu to the great bull market.

There is nothing in Dow Theory that even remotely suggests waiting for a bear signal to exit the market. The bear signal (when it finally arrives) simply makes official note of the fact that the bull is dead and that the long-term direction of the market is down. Dow Theorists take their leave of bull markets when prices are dear, and all the elements of a third phase are present. That pretty much fit the picture as I saw it in mid-1987.

My PTI currently stands at 2680. It broke below a rising trendline which extends up from the June low, but it is still 18 points above its 89-day moving average, which now stands at 2662.

**DOWPOW:** Back in 1971 I developed an indicator which I called my Primary Trend Index (PTI). I have computed and plotted the PTI (on a daily basis) ever since. The PTI, an amalgam of eight "action-of-the-market" indices, has proved over the years to be invaluable as an indicator of the primary direction of the market.

Now, for the first time in 16 years, I am introducing another indicator. I call this new indicator DowPow. I call it DowPow because it represents the Dow adjusted for the power (or lack of power) in the rest of the market. *To be more specific, DowPow, is the daily Dow adjusted for the action of the daily advances and declines.* After a year of study of DowPow, I can say that I believe that DowPow will prove just as important to us as the PTI. In fact, I will be using DowPow as a companion tool with the PTI.

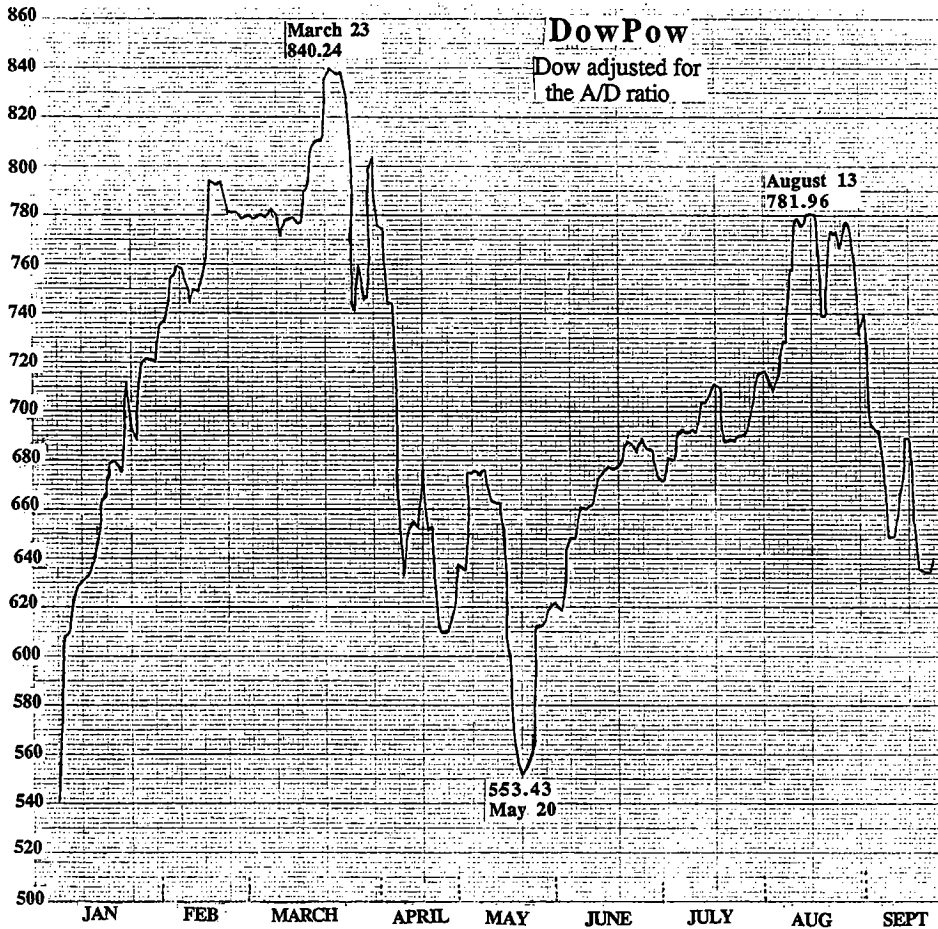
The theory behind DowPow is this: If tomorrow the Dow closes up 25 points and there is an accompanying total (on the NYSE) of 200 advances over declines, this is not particularly impressive action. But if the Dow closes up 10 points and there is an accompanying total of 1000 more advances than declines, that represents very strong action. Problem: How do you show those two actions on a chart?

DowPow solves the problem, but as with the PTI, I am not going to reveal the formula. I am not going to reveal the formula because I expect to make constant use of DowPow, and if other investors and advisories start using DowPow I am afraid that it will be just a matter of time before DowPow loses its effectiveness.

But is DowPow an important indicator? I am convinced that it is. DowPow is important because it shows very precisely *the power of upside action compared with the power of downside action*. In other words, if an advance takes place with accompanying weak upside breadth, I want to see what the ensuing decline looks like. If the next decline occurs with powerful downside breadth, I know we are looking at a weak market. The two actions will show very clearly on the chart.

The best way to illustrate DowPow is to present a daily chart of DowPow going back to the first of this year. What we see here is interesting and, I believe, very enlightening. DowPow started 1987 at value of 541.36. DowPow then rocketed up to a high of 840.24 on March 23. From there DowPow dropped sharply to a low of 553.43 on May 20. This drop represented a huge (and surprising) loss of 96% of all the January-March gains. From the May 20 low of 553.43 DowPow rose strongly to 781.96. As you can see on the chart, this put DowPow 59 points below its 1987 high.

It is also interesting to note that DowPow hit its high of 781.96 on August 13, just two days after the D-J Transportation Average recorded its bull market high. Then following a three-day decline, DowPow rallied again, but it failed to make a new high -- even though the D-J Industrial Average on August 25 recorded its bull market high at 2722.42.



Following its second major (but lower) peak recorded on August 25, DowPow plunged to a September low of 670.33. Thus, DowPow as of late-September appeared considerably weaker than any of the major and widely-watched stock averages.

I believe it will be important to see what sort of a pattern DowPow traces out from here. It will be particularly important to see whether DowPow can better its August 25 high or whether DowPow is going to head down and ultimately break below its May 1987 low of 553.43. So far, DowPow's pattern is bearish, and the most recent downward zigzag formation suggests that DowPow could test its May 20 low.

I might add that I am always fascinated with indices which are based on market action but which "see" the market in a different way. I am also fascinated with indices which provide a view of the market that is "exclusive" in that it is not followed by other advisories.

**SQUEEZE:** One of the simplest yet most accurate gauges of interest rates and Fed intent is the yield differential between the discount rate and the 91-day T-bill rate. The discount rate, of course, is the rate that the Federal Reserve Banks charge their member banks for loans. As noted in the last Letter, the bank discount rate was recently raised from 5.5% to 6%.

But since July the yield on the 91-day T-bills has spurted higher until last week the yield was 6.52%. Thus the bill rate is now roughly .52% above the posted discount rate. This represents pressure in the money markets.

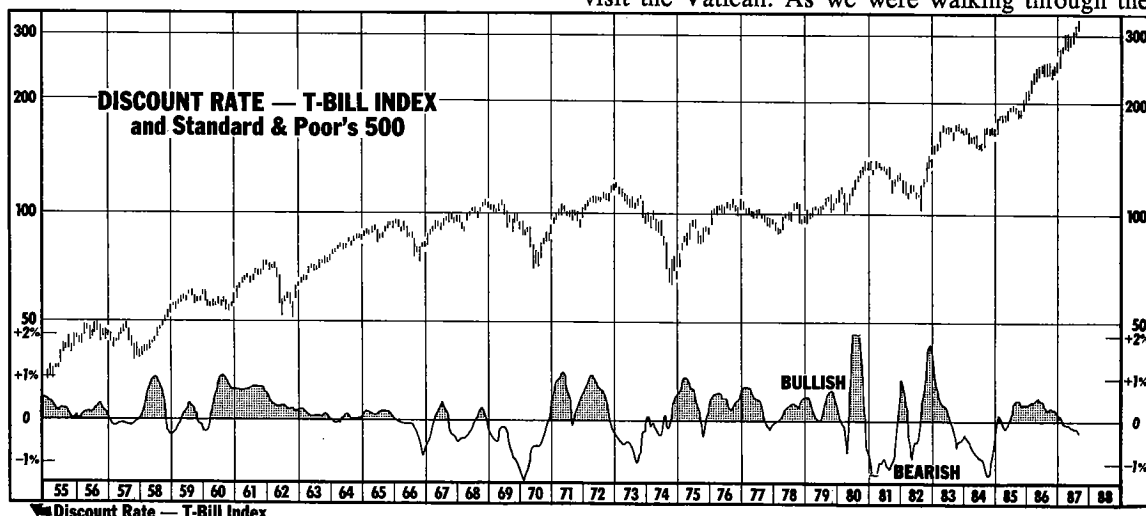
The accompanying chart is courtesy of Market Logic (3471 N. Fed. Highway, Ft. Lauderdale, FL 33308). The chart traces very clearly the T-bill/discount rate spread going back to 1955 (the index on the chart is a 15-week moving average of the spread so that minor fluctuations are eliminated). What is clear on the chart is that this spread exerts a definite effect on the market.

Studying all the movement on this chart going back to 1955, you can see that when the index goes positive it is no guarantee that the market will turn bullish; nevertheless, a positive spread certainly provides a bullish monetary background for the stock market. However, in the past when this index turned decisively negative, almost without exception the market was in for rough times.

The current weekly spread on the index is a negative 0.5 -- therefore the 15-week moving average is continuing on its downward path. The monetary background, based on the T-bill/discount rate spread, is therefore negative.

**NOTES & QUOTES:** The arrival of the Pope in America brought to mind an incident that I haven't thought about in years. During World War II (it was around December 1943). I was a bombardier-navigator flying combat with the 12th Air Force out of Senigalia in Italy. One weekend the C.O. told me and the two other officers in my crew we could have a two-day pass to Rome, but we would have to pick up some spare parts that were sitting at the Rome airport. So my pilot, Art Herron, my co-pilot, Bob Martinque, and I headed for Rome in our B-25 medium-bomber.

We did the sights in Rome and on the second day we decided to visit the Vatican. As we were walking through the Vatican a



Cardinal stopped us and asked us if we had seen the Pope. He told us that the Pope was having an audience with service men at 2pm that day. Both Herron and Martinque were Catholics and they jumped at the opportunity to see the Pope. I was also interested. An hour later we were standing in front of Pius XII. The audience was very small -- the three of us and about five other American servicemen.

The Pope, who spoke broken English, asked each of us where we were from. Then he told us that he would like to bless us. I stepped aside. The Pope asked why I did that. I told the Pope that I had moved from the group because I was a Jew. The Pope smiled and said that it made no difference to him -- that he would like me to join the others. So I joined the group, and the Pope raised his hand and blessed us all in Latin.

When I got home after the War a Jewish friend asked me why I had wanted to be blessed by the Pope. I told him, "Listen, there's only one God, and the Pope knows him one way and I know him another. Besides, I was going back into combat, and I figured I needed all the help I could get." Well, that's the end of the story, and the blessing didn't hurt -- I'm still alive, aren't I?

I sold my last motorcycle a few years ago. But all during 1987 I increasingly missed having a "bike." Every time I saw a big Yamaha or Honda roar by I would turn around and stare longingly. Finally, Malcolm Forbes turned the tide for me. When I read a few weeks ago that Malcolm took Elizabeth Taylor for a 100-mile ride on his Harley and proposed to her while she was on the back of the bike it was too much for me. I went to Suzuki and bought one of their big new 1400cc "Intruders."

Last weekend broker Mike Susak of PaineWebber (he's got a Harley) and I headed out to the country. The great thing about living in San Diego is that in half an hour you can be out riding through gorgeous mountain roads and past sparkling lakes. We swooshed through Rancho Santa Fe, into the mountains past Lake Hodges, down into the town of Escondido, all the time roaring away with the sound that only big bikes can make. Some like boats, others like Ferraris or Porsches. I guess I'll always be hooked on motorcycles. Darn you, Malcolm Forbes.

In every newspaper and magazine I read I see this giant two-page ad for Zen Master Rama with an accompanying picture of a bushy-haired fellow who looks like an angelic rock star. All I know is that the Master started speaking in San Diego, and went out from here -- but do any of my subscribers know who he is? I mean, he must be spending millions on ads. WHO IS THIS GUY?

How do Asiatic wages compare with ours? Here's a sampling of hourly wages: S. Korea, \$1.39 per hour; Taiwan, \$1.66; Hong Kong, \$1.88; Japan, \$9.50, and US, \$13.09.

With the dollar's decline prices of imported cars are rising. Since the end of 1984 domestic car prices have risen only 4.6% while prices of imports have exploded 24.4%. However, an examination of comparative workmanship will show that foreign cars (finish, parts, fit) are still better than the domestic product. For instance, compare a Lincoln with a Merkur (a comparison which I recently made) and you will immediately see the difference. The Merkur is made better, fitted better, has a generally tighter, more solid look and feel.

TV is extremely popular in the "new China" and last year Chinese bought 15 million TV sets. The government lowered the price of black and white sets so that even the poor in China now can own their own TV. The most widely-watched program: a weekly program showing various views of the outside world. This show has the largest viewing of any TV show in the world with an estimated audience (are you ready for this) of 400 million.

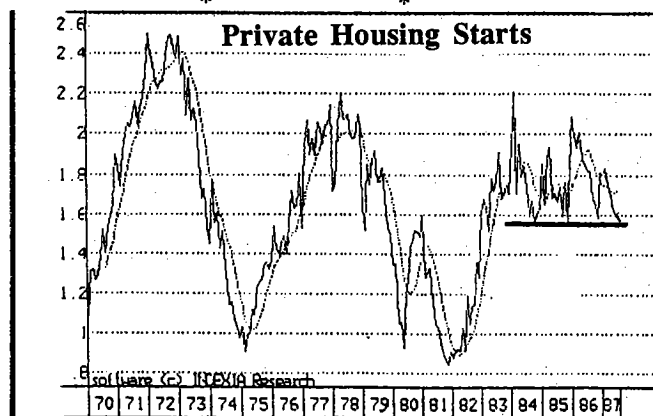
Wall Street may be preparing the biggest con game in history. What is it? The concept of "securitizing" the third world's debt. Yes, the

big brains (mainly Michael Milken of Drexel) are zeroing in on the massive Latin American debt. Why Latin America? Europe is a standoff because European and Japanese interests are established there. Asia is a no-no because the Japanese have a natural interest there. Africa -- don't ask. And nobody will do business with Russia. So it's Latin America. The idea would be to get countries like Mexico (\$100 billion in debt) and Venezuela (\$34 bill in debt) to pledge assets like silver and oil with which to back new bonds which would be sold by Drexel.

Meanwhile, the open market bids on third world bank loans seem to tell a story all their own. Examples: Bid for Brazilian debt, \$46 on \$100; Costa Rica, 33 on 100; Mexico, 50 on 100; Chile, 65 on 100; Ecuador, 36 on 100.

What were the big individual winners in the Dow over the past year? Here they are: Bethlehem Steel up 186%, USX up 73%, Goodyear up 70%, Navistar up 63%, Merck up 63%, Aluminum Co. up 62%, Philip Morris up 61%, General Electric up 45%, Eastman Kodak up 44%. On a year-to-year basis no Dow stock was down but Boeing did the worst, up only 2%. Over the last six months four Dow stocks were down: American Express, Allied Signal, Boeing, and Primerica.

Autos and housing, two of the main forces in the US economy, are slowing down. Nobody seems to have noticed it, but housing is in a real slump, down one-third in a little over a year. This chart (courtesy of Econotrac Research, PO Box 9137, Allentown, PA 18105) tells the story. With mortgage rates now pushing into double digits, I would expect new housing starts in the period ahead to break the "support" shown on the chart. At which point, the housing slump would become front-page news.



In a 30-year trend toward postponing marriage, men and women in the US are marrying later than ever. But do you believe this: in the 20 to 24 age group, 4 out of 5 men are now unmarried and almost 2 out of 3 women (61%) in the same age group are unmarried.

The figures on health publications are mind-boggling. Here are some of the circulation statistics: Mayo Clinic Health Letter (monthly), 350,000; Hippocrates (bimonthly), 350,000; American Health (10 issues a year), 1 million; Health (monthly), 1 million; Univ. of Calif. Berkeley Wellness Letter (monthly), 400,000; Harvard Medical School Health Letter (monthly), 300,000. Russell comment: I think I'm in the wrong business.

How much does it cost to insure jewelry? Figure it can cost roughly 2.5% a year. If you have a lot of jewels, it's cheaper to put in a good security system in your home and if you're still worried get one of those big, almost unbreakable Israeli safes (yes, they're made in Israel). Most people don't know it, but banks do not guarantee or insure your valuables in a bank safe against theft or loss. Safe box insurance runs high, roughly about 1% of asset value.

What are the most expensive (based on home prices) communities in the nation? I thought La Jolla was near the top, but it ranks only 36th. No. 1 and 2 is a tie between Greenwich, Conn. and Mill Neck, NY with an average home price of \$1.2 million. 3 is Alpine,

NY at \$1.18 mil. 4 is Saddle River, NJ at \$1.15 mil. 5 is Atherton, Cal. at \$910 thousand. 6 is Laurel Hollow, NY at \$900. 7 is Hillsborough, CAL. at \$850 thousand, 9 and 10 are New Canaan and Darien, Conn. at \$800 thousand, and 10 is a place called Muttontown, NY at \$770 thousand.

The presidential race is, so far, a strange hodgepodge of singularly unglamorous and unexciting candidates. On the Democrat side we have the "seven dwarfs." Popularity of the seven, among Democrats, range from 26% for Jackson to only 3% for Biden. The best known of the Democrats, Gary Hart, is not running. Said one angry Demo, "Hart stepped out of the race, but he won't get off the stage."

On the Republican side we have George Bush, an able guy with much experience, but who comes across like an angry, rather prissy Harvard professor. And we have Bob Dole, perhaps the most intelligent of the whole lot, but a man with a personality that has never been described as appealing. Maybe the Brits know the answer. The latest odds from British bookmakers for the White House put Bush at 6 to 4 (he's the favorite), Dole at 9 to 4 and Demo Gephardt at 5 to 1.

September 17 was the 200th anniversary of the signing of the US Constitution. Few people realize the situation among the 13 original states prior to the adoption of the Constitution.

Prior to the Constitution, the Articles of Confederation were the "law." There was no "nation" as such, but 13 bickering states. The states were literally ungovernable under the Confederation and there was no Chief Executive. The states had not given up their sovereignty, but they would announce themselves as "The State of New Jersey, by the grace of God, Free Sovereign and Independent." Nine states actually had their own navies! The Continental Congress under the old Articles (which had been signed in 1777) had no power to tax, regulate commerce, or even to raise an army. The courts were weak and as Hamilton put it, the states had no "purse" nor "sword." Individual states passed tariff laws against each other. For example, as far as New York was concerned, Virginia was a foreign nation. The Constitution ended all that, and rendered the 13 states a new nation.

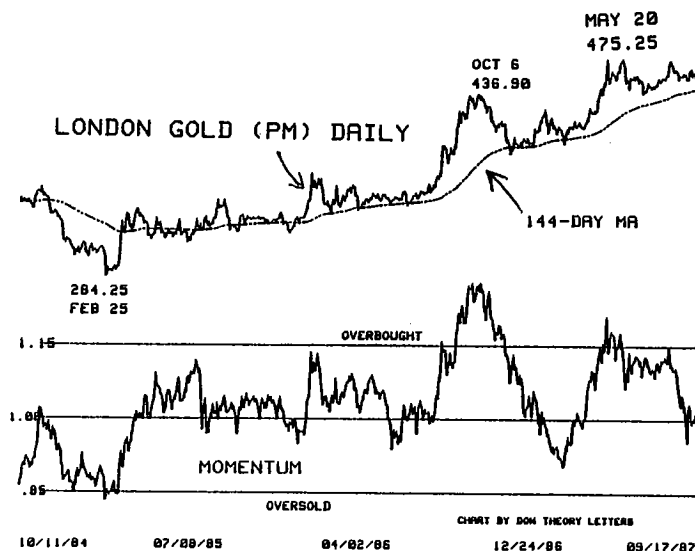


This cartoon answers the question regarding "Why I don't like to fly anymore." I guess most of my readers have had ghastly experiences in "the friendly skies," but you gotta learn to laugh too.

**GOLD:** Nothing too exciting in the precious metals complex for this report. I'm including my technical chart of gold, and this is a chart that has served us well over the past few years.

Note that gold is still holding bullishly above its 144-day moving average, and in turn the moving average continues to climb in a bullish manner. The 144-day MA for gold is now 444, so consider that figure as a critical one for the yellow metal.

As for gold momentum (which is actually an 89-day rate-of-change index), note that following its overbought condition of last



October, gold momentum sank almost to oversold -- rallied, then slipped to around 1.00. Currently gold momentum is at "neutral" awaiting the next impulse.

Since gold is in a bull market, the normal expectation is that the next impulse will be UP. We should also remember that almost without exception *gold tends to make an important LOW sometime during the fourth quarter of each year*. Thus, if gold can hold above its MA at 444 between now and whatever fourth quarter low is finally recorded, I would consider that good action.

Finally, I should mention that the gold stocks continue to act very well. Last week the gold stock index (XAU) closed at an all-time high at 155 (see chart on page 6 of the last Letter).

**LATE NOTES:** In all the years that I've been in this business I've never seen such unanimity of opinion on the thesis that the primary trend of the stock market is still bullish and that what happened during August and September was "just a correction." I mean the consensus is overwhelming -- Fosback, Granville, Prechter, Nurock, Weinstein, Frank, you name 'em and the bullish opinion is there. Can they all be right? Sure, they can, but ornery devil that I am -- I'm just not convinced. I keep telling the market, "Show me."

Few people have noticed but there is a move on to put teeth in the toothless Gramm-Rudman act, and I think the new plan just might have a chance of passing. If it does, the deficit (is this possible?) would be reduced on a systematic basis, and the bond market would obviously love it (bonds rallied last week on the rumor).

**Stocks:** The September 8 Transportation Average low of 1012.12 is important. During last week's decline Industrials violated their early September low, but Transports refused to confirm. The non-confirmation led to this week's early rally. The strength (or lack of strength) of this rally should go a long way toward telling us where the market is, how strong it is, and where it might go from here.

My PTI halted its decline while still 18 points above its 89-day moving average. ... The yield on Barron's highest rated bonds is now 9.96%. This is a whopping 5% above the earnings yield on the Dow. The value basis of bonds over stocks is now the greatest in history.

Last week the retail stocks broke badly. It was almost as if the market expects a coming consumers' strike. The two hottest specialty store stocks, the Gap and the Limited, are now well down from the 1987 highs.

**NEXT MAILING: Oct. 7**